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In The

Supreme Court of the United States

October Term, 1997

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., and KEVIN F. HOBBS,

Petitioners,

vs.

ESQ BUSINESS SERVICES, INC., a California corporation,

Respondent.

On Petition for Writ of Certiorari to the California Supreme Court

RESPONDENT'S BRIEF IN OPPOSITION

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RESPONDENT'S RESTATEMENT OF THE QUESTIONS PRESENTED

1. Are Petitioners precluded from raising an issue of the constitutionality of California's unauthorized practice of law statute, Business & Professions Code § 6125, which they failed to raise in previous federal and state court proceedings in this case?

2. As framed and decided by the California Supreme Court, do the actions and services of attorneys licensed only in New York, performed in California for a California client relative to a dispute arising from a contract governed by California law, constitute unauthorized practice under section 6125 and, if so, does that violation render the fee agreement between the New York attorneys and their California client wholly unenforceable?

3. Does the Federal Arbitration Act preempt a determination by the California Supreme Court that the actions and services of attorneys licensed only in New York, performed in California for a California client in preparation for arbitration of a commercial dispute arising from a contract governed by California law, constitute the unauthorized practice of law under section 6125?

STATEMENT PURSUANT TO RULE 29.6

Respondent ESQ Business Services, Inc., a California corporation, does not have a parent company. ESQ. Ltd. is a nonwholly owned subsidiary of ESQ Business Services, Inc., a California corporation. The owners of ESQ Ltd. are ESQ Business Services, Inc., a California corporation, and Iqbal Sandhu.

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STATEMENT OF JURISDICTION

The Interstate Commerce Clause question presented by Petitioners was not raised in any prior federal or state court proceeding in this case. This Court should therefore decline to consider that question for lack of jurisdiction.

STATEMENT OF THE CASE

The controversy underlying this Petition arises from a New York law firm's attempts to advise a California client about complex questions of California and intellectual property law in a transaction between the California client and another California-based company, and the New York firm's subsequent litigation of disputes concerning that transaction in a California forum.

Petitioners are primarily tax, estate planning, and personal injury lawyers. They were not members of the California Bar, and did not have or obtain the knowledge of California law or knowledge of the subject matter of the engagement necessary for competent representation of their California client. Their advice, which was rendered in substantial measure while physically present in California, regarding supposed claims arising from the California transaction was simply wrong and caused damages in excess of $1 million to the client.

A. Procedural History

Petitioners do not specify the stage and manner in which their Commerce Clause issue was timely and properly raised in prior proceedings. Nor can they do so.

In January 1994, Respondent ESQ Business Services, Inc., a California corporation ("ESQ"), and its sole shareholder, Iqbal Sandhu, filed a Complaint in Santa Clara County, California

Superior Court for negligence and related claims against Birbrower, Montalbano, Condon & Frank, a New York corporation ("Birbrower"), and one of its attorneys, Kevin Hobbs. ESQ and Sandhu included allegations that Hobbs had engaged in the unauthorized practice of law in California and that such violations, along with other independent reasons, rendered fee agreements with Birbrower void and unenforceable.

Birbrower and Hobbs filed a Notice of Removal in the United States District Court for the Northern District of California based only on the ground of diversity of citizenship. Respondent's Appendix ("RA") at 1a-3a. Both Petitioners filed an Answer to the Complaint; the Birbrower firm also filed a Counterclaim to recover fees for work done in both New York and California. Birbrower averred that a separate entity, ESQ Business Services, Inc., a New York corporation ("ESQ-NY"), had acted as an agent for ESQ and Sandhu relative to transactions in controversy. Birbrower did not name ESQ-NY as a party.

ESQ and Sandhu responded by motion for leave to amend their Complaint to add ESQ-NY as a plaintiff (under a claim for declaratory relief to establish that ESQ-NY had no liability to Birbrower), and to remand the case to state court because joinder of ESQ-NY would eliminate diversity. Petitioners opposed these requests, but did not assert that jurisdiction could be maintained because of a claim or right arising under the Constitution or a federal statute. RA at 4a-13a. In April 1994, the District Court entered its Order granting the motions to amend and for remand. The matter returned to the California Superior Court.

There, in November 1995, ESQ requested summary relief declaring void or voidable the fee agreements on which Birbrower based some of its claims for relief. ESQ advanced three independent bases for the motion, the first of which was that Petitioners had violated Business & Professions Code section 6125. In their

opposition to ESQ's motion, Petitioners did not contend that application of section 6125 abridged the Commerce Clause or that application of the California statute to an out-of-state lawyer representing a party in connection with a commercial arbitration was preempted. No paper submitted by either side references the Commerce Clause or the Federal Arbitration Act ("FAA"). The Superior Court granted ESQ's motion. Petitioner's Appendix ("PA") at 60-63.

Petitioners obtained review by the Court of Appeal for the State of California, Sixth Appellate District. They did not mention or suggest any constitutional question in describing the case or framing the issues for the Court of Appeal. RA at 14a-24a. Petitioners again did not argue that section 6125 offended the Commerce Clause or that the state statute was preempted; no reference to the Commerce Clause or the FAA appeared in any brief. The Court of Appeal affirmed the Order of the Superior Court. PA at 45-59.

In their request for review by the California Supreme Court, Petitioners stated the issues in this manner:

> 1. Does an out of state attorney's limited non-courtroom legal work performed in California constitute the "unauthorized practice of law," under Business and Professions Code section 6125?
>
> 2. Is an out of state attorney, barred from enforcing an otherwise valid fee agreement with a client when the legal services include limited work performed in California? RA at 27a. *Also see* RA at 29a-31a.

The California Supreme Court described the issues addressed in its consideration of the case in much the same way:

> We granted review to determine whether Birbrower's actions and services performed in California constituted the unauthorized practice of law under section 6125 and, if so, whether a section 6125 violation rendered the fee agreement wholly unenforceable. PA at 8.

Yet again, there was no reference to a possible Commerce Clause violation in any brief submitted to the California Supreme Court by Petitioners, by ESQ, or by any amicus curiae. Contrary to Petitioners' unsubstantiated assertion (Petition ("Pet.") at 6), no mention of the Commerce Clause was made at oral argument. Like the lower state courts before it, the California Supreme Court said nothing on the subject because the issue never was raised.

By contrast, Petitioners did finally reference the FAA while the matter was before the California Supreme Court. This was done, however, only in Petitioners' reply to the amicus brief of the State Bar of California. ESQ had no opportunity to respond. Although the California Supreme Court was not obliged to address this point, it did so in a fashion consistent with principles of FAA preemption articulated by this Court. PA at 20.

The claims by ESQ and Sandhu against Petitioners for malpractice remain to be tried. Similarly, the question of fee entitlement, if any, by the Birbrower firm remains to be determined pursuant to guidelines set by the California Supreme Court. *See* PA at 28-29.

B. Factual Summary

The facts pertinent to resolution of ESQ's section 6125 claim were not disputed by Petitioners in proceedings before the California courts. Now, however, they emphasize a different tale in support of contentions never raised before. In particular, the existence of a "non-resident client" (ESQ-NY presumably) which

"owned" claims is a fiction which the California Supreme Court appropriately ignored.

In late 1989 or early 1990, Iqbal Sandhu was a young man living in Silicon Valley who had partially developed a software product known as PNA. He received a proposal from Tandem Computers to finance completion and then market PNA on an exclusive basis. Tandem was a Delaware corporation headquartered in Santa Clara County, California.

Sandhu felt he needed legal advice and contacted his older brother, Kamwaljit Sandhu ("Kamal"), who lived in New City, New York, a town 30 miles northwest of New York City. Kamal suggested that Iqbal contact Hobbs, who had previously represented the Sandhu brothers' father and also Kamal's business, ESQ-NY, in several matters.[1] Iqbal contacted Hobbs, and Hobbs undertook the engagement. Hobbs knew that California law would govern the arrangement proposed by Tandem. Neither Hobbs nor any of his colleagues at Birbrower were members of the California Bar. Neither Hobbs nor his firm associated or consulted any California attorney to assist at this or any later stage of the representation.

On March 16, 1990, a written contract (the "Tandem Agreement") was entered in California. Iqbal intended to establish a California entity to perform the contract with Tandem, but was unable to do so before the Tandem Agreement was ready to sign. He therefore arranged for ESQ-NY to execute the Tandem Agreement. Everyone involved, however, understood that Iqbal and the business to be formed by him were responsible for the ESQ "side" of the Tandem Agreement. Hobbs handled incorporation of ESQ in California, but no formal assignment of

1. Despite assertions to the contrary (Pet. at 2-3), there was only a family relationship between the brothers. As Kamal has testified, he was the sole owner and **sole officer** of ESQ-NY, Iqbal had no responsibility for ESQ-NY operations, and was never an employee of that business. Similarly, when ESQ was formed in California, Kamal and ESQ-NY had no substantive role in that enterprise.

the Tandem Agreement from ESQ-NY to ESQ was ever made. Nonetheless, after March 1990, Tandem on one hand and Iqbal and ESQ on the other dealt only with each other under the Tandem Agreement; neither Kamal nor ESQ-NY had further contact with Tandem.

In early 1992, Iqbal became concerned with Tandem's actions and intentions and sought advice from Hobbs. Without researching pertinent law, and without even recognizing that certain critical legal issues were involved, Hobbs convinced Iqbal that ESQ had "multi-million dollar claims" against Tandem. Hobbs also represented that he and his firm were competent to litigate the case. As a result, ESQ entered a contingency fee agreement with the Birbrower firm. Because on its face the Tandem Agreement had identified ESQ-NY as a contracting party, ESQ-NY was named along with ESQ as a "client" in the engagement. However, Iqbal (not Kamal) signed the fee contract as the "authorized agent" of ESQ-NY.[2]

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2. Acknowledging that inclusion of ESQ-NY in the fee contract was a matter of form and not substance, Petitioners made statements regarding ESQ-NY **not** being party under the fee contract to the United States District Court in opposition to the motions to amend and remand:

> ESQ-NY's interests do not need protection since it does not face claims against it that would subject it to liability. It is clear that ESQ-NY is not even a necessary party to this action. RA at 9a.
>
> Defendants have not served ESQ-NY with any action, filed any action against it, nor do they seek any recovery from it. Passing references to ESQ-NY does [sic] not pose any threat to ESQ-NY, even if the claims against plaintiffs were proven. RA at 13a.

These judicial admissions by Petitioners further contradict their current position that ESQ-NY was a real client in connection with the Tandem Agreement controversy.

Thereafter, Hobbs and other Birbrower attorneys engaged in what the California Supreme Court aptly described as extensive practice of law **within** California. *See* PA at 4-5. During the year or more covered by their California activities, Petitioners never consulted with, advised, or reported to ESQ-NY. All attorney-client communications involved only California entity ESQ.[3] When talks to resolve the dispute between Tandem and ESQ neared conclusion, Hobbs directed his protests and legal opinion only to ESQ. No evidence exists that Hobbs even informed ESQ-NY that the matter was being settled.

Settlement documentation (by way of a new agreement between ESQ and Tandem) made no mention of ESQ-NY, did not provide for or include any signature by or assignment from ESQ-NY, and recited that the March 16, 1990 contract had been entered between Tandem and ESQ Business Services, Inc., a California corporation. RA at 33a-37a. In these same papers, which were reviewed by Hobbs, arbitration proceedings were described as being between only Tandem and ESQ, and waivers and releases were provided between only Tandem and ESQ. RA at 33a-34a, 36a-37a.

The parties confirmed, in other words, that from the start there was no New York "client" involved as a matter of substance in the Tandem Agreement or in any dispute related to that contract. Consistent with the reality that ESQ-NY was only a "straw man" and "owned" no claim against Tandem, following settlement of the Tandem dispute ESQ and Birbrower modified their fee agreement and, among other things, eliminated ESQ-NY as a party named in that contract.

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3. ESQ-NY also was not mentioned in Petitioners' communications with third parties. Neither the arbitration demand which Petitioners prepared nor any other communication from them to the American Arbitration Association references ESQ-NY as being the claimant. All such papers prepared by Petitioners say either "ESQ" or "ESQ Business Services, Inc." and no more.

Petitioners were not in-house lawyers, outside general counsel to a bi-coastal enterprise, or even a multi-state firm. Despite characterizations of the Tandem Agreement as involving "international marketing" of PNA, the underlying dispute between ESQ and Tandem did not require attention from attorneys skilled in the laws of several different jurisdictions. Rather, the controversy arose under California law and could have been handled by a member of the California Bar without leaving the San Francisco Bay Area. Under the undisputed facts actually presented below on which the decision of the California court was based, the *Birbrower* opinion creates no cause for constitutional concern.

REASONS FOR DENYING THE WRIT

I. JURISDICTION DOES NOT EXIST FOR REVIEW OF ISSUES NOT PRESENTED TO AND DECIDED BY A STATE COURT OF LAST RESORT.

Petitioners' Commerce Clause argument is raised for the first time. This Court therefore lacks jurisdiction to determine substantive matters raised at pages 11 to 29 of the Petition. *See* 28 U.S.C. § 1257(c); *Adams v. Robertson*, __ U.S. __, 117 S. Ct. 1028, 1029 (1997) (per curiam); *Yee v. City of Escondido, California*, 503 U.S. 519, 533 (1992). Before reviewing state decisions, the Court must be satisfied that the state court has had "a fair opportunity to address the federal question that is sought to be presented." *Webb v. Webb*, 451 U.S. 493, 501 (1981). "[T]he court will not decide federal constitutional issues raised . . . for the first time on review of state court decisions." *Cardinale v. Louisiana*, 394 U.S. 437, 438 (1969); *accord, e.g., Hoover v. Ronwin*, 466 U.S. 558, 574 n.25 (1984) (Fifth and Fourteenth Amendment claims regarding Arizona Bar admission practices deemed not seasonably raised).

Sound policy reasons support this rule:

> Questions not raised below are those on which the record is very likely to be inadequate, since it certainly was not compiled with those questions in mind. And in a federal system it is important that state courts be given the first opportunity to consider the applicability of state statutes in light of constitutional challenge, since the statutes may be construed in a way which saves their constitutionality. Or the issue may be blocked by an adequate state ground. Even though States are not free to avoid constitutional issues on inadequate state grounds . . . they should be given the first opportunity to consider them.

Cardinale, 384 U.S. at 439 (citation omitted).

This rationale is operable here. Petitioners never raised a Commerce Clause argument during any previous proceeding, and there is no indication that any lower court believed it was being asked to render a decision under that provision. The California Supreme Court never had opportunity to review, address, or properly consider Commerce Clause assertions made here for the first time.[4] Nor did it have the benefit of a proper record on which resolution of the issue appropriately might be based.

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4. Petitioners mistakenly assert, without citation to or submission of a record, that "[d]uring oral argument, the parties discussed at length the impact of the court of appeal's ruling on interstate commerce." Pet. at 6. This did not occur and, in fact, there is no evidence that the issue was discussed or considered by the California Supreme Court. Not coincidentally, the *Birbrower* decision makes no mention of a Commerce Clause issue. When the highest state court is silent on a federal question, this Court **assumes** that the issue was not properly presented. *Board of Directors of Rotary Int'l v. Rotary Club of Duarte*, 481 U.S. 537, 550 (1987). In such circumstances,

(Cont'd)

Petitioners may argue that the California court mentioned the "multistate nature of law practice" in its decision (PA at 21), and thereby implicitly considered application of the Commerce Clause.[5] However, the mere fact that a state court mentions an issue touching upon a federal question is not sufficient to convey jurisdiction on this Court. *See George O. Richardson Machinery v. Scott,* 276 U.S. 128, 132-133 (1928).[6]

Petitioners must establish that the federal question was **actually** presented for decision or has **actually** been decided by the state court, and that the state court's judgment could **not** have been

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(Cont'd)

> the aggrieved party bears the burden of defeating this assumption . . . by demonstrating that the state court had "a fair opportunity to address the federal question that is sought to be presented here."

Adams, 117 S. Ct. at 1029 (quoting *Webb*, 451 U.S. at 501).

5. In **limited** instances the Court will review federal questions not raised in the lower courts. However, review is permitted only when (i) the state court did "not decide against a petitioner . . . upon an independent state ground," and (ii) the state court actually "entertain[ed] and decide[d] that question adversely to the federal right asserted." *Orr v. Orr*, 440 U.S. 268, 276-77 (1979).

6. Similarly, Petitioners cannot rely upon decisions involving the "multi-state nature of law practice" cited in their state court briefs to rescue constitutional arguments never specifically raised before. For example, Petitioners referenced *Appell v. Reiner*, 43 N.J. 313, 204 A.2d 146 (1964), and *In re Estate of Waring*, 47 N.J. 367, 221 A.2d 193 (1966), as substantiating their allegedly falling under an exception to section 6125. *See* PA at 20-21. Neither case mentions or cites the Commerce Clause. Neither decision purports to strike down undue burdens on interstate commerce. Even if these cases could support a Commerce Clause argument (which Respondent does not concede), discussion or casual reference to such a case "in the midst of an unrelated argument, is insufficient to inform a state court that is has been presented with a claim subject to [this Court's] appellate jurisdiction under 28 U.S.C. § 1257(2)." *Board of Directors of Rotary International*, 481 U.S. at 550 n.9; *accord, Adams*, 117 S. Ct. at 1030.

rendered without deciding the federal question. *Wilson v. Cook*, 327 U.S. 474, 480 (1946).

Neither California appellate opinion suggests that Petitioners' Commerce Clause issue was actually presented, actually decided, or formed the crux of analysis. The Commerce Clause is not mentioned by the California Supreme Court or the Court of Appeal. It was not addressed in Petitioners' appellate briefs, or in any other brief filed with those courts. Both opinions reflect that interstate commerce was not an important factor or central focus; each court determined, based upon facts not in dispute, that the underlying engagement of Petitioners by ESQ was **intrastate** in nature. While recognizing a need to accommodate attorneys involved in multistate transactions,[7] the California Supreme Court held that Petitioners were ineligible for an "interstate representation" exception to section 6125 because of their "extensive activities within California." PA at 21. The District Court of Appeal held:

> This exception is inapplicable under the facts presented here. . . . *Nothing about this dispute was interstate in nature. Consequently, the exception does not apply.*

PA at 57 (emphasis added).

The ruling below, in other words, rested solely on state law principles. The case hinged not on any constitutional argument, but on a determination about what activity constitutes the "practice of law" under California law. That alone precludes review. *See Lambrix v. Singletary*, __ U.S. __, 117 S. Ct. 1517, 1522 (1997) ("since the state-law determination is sufficient to sustain the decree,

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7. Importantly, the California Supreme Court did **not** hold that there was no "interstate representation" exception. The court left open possible application of such an exception to matters that truly require accommodation of the multistate nature of certain transactions.

any opinion of this court on the federal question would be purely advisory").

Lastly, Petitioners abandoned any right to challenge section 6125 under the Commerce Clause. In light of their consistent failure to even cite the Commerce Clause at every prior stage of adjudication, Petitioners waived the claim. *Trailer Marine Transport Corp. v. Rivera Vazquez*, 977 F.2d 1, 6 (1st Cir. 1992) (a Commerce Clause assertion is not jurisdictional and can be waived by failure to advance the claim at lower court level); *accord, Yakus v. United States*, 321 U.S. 414, 444 (1994).

II. PETITIONERS LACK STANDING TO ASSERT SUPPOSED COMMERCE CLAUSE RIGHTS OF UNIDENTIFIED CLIENTS.

Nearly all of Petitioners' contentions revolve around the thesis that **clients** are harmed by application of unauthorized practice statutes to out-of-state attorneys. Petitioners lack standing to make these arguments because the interests invoked are those of unidentified "clients" rather than their own.

Generally, "a litigant must assert his or her own legal rights and interests, and cannot rest a claim to relief on the legal rights or interests of third parties." *Powers v. Ohio*, 499 U.S. 400, 411 (1991) (citations omitted). Third-party standing may be allowed if the litigant suffered injury in fact; the litigant has a close relationship with the third party; and some hindrance exists to the third party ability to assert the rights themselves. *Id.*

Petitioners do not meet these requirements. They have not yet suffered injury since no court has entered a final judgment in this case. *See Whitmore v. Arkansas*, 495 U.S. 149, 155 (1990); *O'Shea v. Littleton*, 414 U.S. 488, 494 (1974). Second, though this Court has characterized the attorney-client relationship as "one of special

consequence," the relationships Petitioners reference are prospective only and not actual client relationships. *Caplin v. Drysdale,* 491 U.S. 617, 623 n.3 (1989); *see California Attorneys for Criminal Justice v. Butts,* 922 F. Supp. 327, 333 (C.D. Cal. 1996) (relationship between criminal defense attorneys and prospective clients not sufficiently definite). More importantly, Petitioners' interests are not consistent with those of many of the "clients" for whom they purport to speak; indeed, this litigation is a prime example of how interests of attorneys and clients can be at odds. *See Amato v. Wilentz,* 952 F.2d 742, 751-753 (3rd Cir. 1991). The rationale for the standing requirement, to ensure effective advocacy, would be hampered by allowing Petitioners to argue Respondent's interests. *Powers,* 499 U.S. at 413.

Finally, there are no obstacles preventing clients from advancing such rights themselves. A client could sue to invalidate section 6125 as violative of interstate commerce protections. No person in the client group, however, has chosen to do so or to challenge any similar statute in force in any other state.

Petitioners may try to rely on the narrow exception created by *United States Department of Labor v. Triplett,* 494 U.S. 715 (1990), to claim that, as attorneys, they have standing to assert the rights of clients. *Triplett* is distinguishable because the attorney and client there shared consistent interests (to provide and to obtain competent representation). By contrast, Petitioners' interest here is to be paid for legal work they performed in a state where they were not authorized to practice law, while Respondent's interest is to assure that state regulations intended to protect clients are enforced.

Moreover, the client group in *Triplett* was homogeneous (those potentially eligible for black lung benefits). Here, however, clients whose interests Petitioners pretend to promote range from sole proprietorships to multinational corporations. Unauthorized practice by out-of-state lawyers means different things and raises different

issues for different types of clients, and varies even further according to the nature of the engagement. Third party standing is not viable under such circumstances, and Petitioners' assertion of Commerce Clause interests of unidentified "clients" should be rejected.

III. THE CALIFORNIA SUPREME COURT EXERCISED APPROPRIATE STATE POWER TO REGULATE THE PRACTICE OF LAW IN A MANNER WHICH DOES NOT VIOLATE THE COMMERCE CLAUSE.

Certiorari also is not proper because Petitioners' claim lacks merit. Although Article I, Section 8 of the Constitution implicitly limits the power of a state to interfere with or impose burdens on interstate commerce, it does **not** prohibit all forms of regulation. The Commerce Clause only prohibits regulation that discriminates against or burdens interstate commerce and thereby impedes private trade in the marketplace. *General Motors Corp. v. Tracy*, __ U.S. __, 117 S. Ct. 811, 818 (1997).

Section 6125 is not discriminatory on its face. It does not inhibit or preclude any out-of-state attorney from practicing in California. The only requirement is that the attorney satisfy California admission standards and remain an active member of the Bar. "There is no discrimination on the basis of non-residency or citizenship in California because neither California citizenship nor residency is a requirement for California bar applicants." *Giannini v. Real*, 911 F.2d 354, 357 (9th Cir.), *cert. denied*, 498 U.S. 1012 (1990).

Where, as here, a regulation is facially neutral and has only indirect effect on interstate commerce, the Court employs the test created in *Pike v. Bruce Church, Inc.*:

> Where the statute regulates even-handedly to effectuate a legitimate local public interest, and its

> effects on interstate commerce are only incidental, it will be upheld unless the burden imposed on such commerce is clearly excessive in relation to the putative local benefits . . . If a legitimate purpose is found, then the question becomes one of degree.

397 U.S. 137, 142 (1970) (citations omitted).[8] The balance in this matter is in favor of California's paramount interest in regulating lawyer conduct.

A. No Court Has Held That A State's Long-recognized Interest In Licensing And Regulating Attorneys Violates The Commerce Clause.

> Since the founding of the Republic, the licensing and regulation of lawyers has been left exclusively to the states . . . within their respective jurisdictions. The States prescribe the qualifications for admission to practice and the standards of professional conduct.

Leis v. Flynt, 439 U.S. 438, 442 (1979). As summarized in *Hoover v. Ronwin*:

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8. Petitioners **incorrectly** assert that it is unclear whether the *Pike* analysis applies. *See* Pet. at 15. Citing *Brown-Forman Distillers Corp. v. New York State Liquor Authority*, 476 U.S. 573 (1986), they suggest that there are two tests that might govern the analysis of section 6125. The *Brown-Forman* test applies only when statutes are clearly discriminatory. In contrast, the *Pike* balancing test is applied when the statute is facially neutral and has only an incidental effect on interstate commerce. *See Scariano v. Justices of Supreme Court of Indiana*, 38 F.3d 920, 928 (7th Cir. 1994) (holding *Pike* test proper for analysis of interstate commerce clause challenge to Indiana rule allowing out-of-state attorneys to avoid taking bar exam if they practice predominantly in Indiana for five years); *Goldfarb v. Supreme Court of Virginia*, 766 F.2d 859, 862 (4th Cir. 1985) (applying *Pike* test to Virginia rule excusing out-of-state attorneys from taking bar exam if they intended to practice full time in Virginia).

> "[T]he regulation of the activities of the bar is at the core of the State's power to protect the public." . . . "The interest of the States in regulating lawyers is especially great since lawyers are essential to the primary governmental function of administering justice, and have historically been "officers of the courts." Few other professions are as close to the "core of the State's power to protect the public." Nor is any trade or other profession as "essential to the primary governmental function of administering justice."

466 U.S. at 568 n.18 (quoting *Bates v. State Bar of Arizona*, 433 U.S. 350, 361 (1977); *Goldfarb v. Virginia State Bar*, 421 U.S. 773 (1975), and *In re Griffiths*, 413 U.S. 717, 722-23 (1973)).

Petitioners **concede** that California has at least some legitimate reason to regulate lawyers who interact with its domiciliaries and courts, including but not limited to "protecting clients from unskilled or unethical lawyers." *See* Pet. at 15. The California Supreme Court noted that section 6125 "is designated to ensure that those performing legal services do so competently." PA at 8. *Accord, e.g., Baron v. City of Los Angeles*, 2 Cal. 3d 535, 540-41, 86 Cal. Rptr. 673, 676 (1970) (bar regulations . . . also safeguard the general public "against the ignorances or evil dispositions of those who may be masquerading beneath the cloak of the legal and supposedly learned and upright profession"); Brakel & Loh, *Regulating the Multistate Practice of Law*, 50 Wash. L. Rev. 699, 701 (1975) (protecting the public from incompetence or unethical conduct on the part of out-of-state attorneys is a legitimate purpose of the unauthorized practice laws).[9]

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9. The importance of California's right regulate the behavior of out-of-state attorneys who practice in the state is highlighted in this case. Before the (Cont'd)

Though bar regulations potentially affect commerce, to Respondent's knowledge no Court of Appeal has invalidated any such rule on Commerce Clause grounds. *See, e.g., Tolchin v. Supreme Court of New Jersey*, 111 F.3d 1099, 1107-1111 (3rd Cir.), *cert. denied,* 118 S. Ct. 435 (1997) (New Jersey in-state office and mandatory continuing education rules do not violate Commerce Clause); *Kirkpatrick v. Shaw*, 70 F.3d 100, 103 (11th Cir. 1995) (fitness review requirement not an undue burden on interstate commerce, "especially in light of the expected benefit of protecting Florida's citizens from unscrupulous attorneys"); *Scariano*, 38 F.3d at 928; *Giannini*, 911 F.2d at 357-358; *Goldfarb*, 766 F.2d at 862; *Sestric v. Clark*, 765 F.2d 655, 663 (7th Cir. 1985), *cert. denied,* 474 U.S. 1086 (1986) ("states have been held to have a legitimate interest in regulating the quality of legal practice, and it is not an irrational method of regulation to make nonresident lawyers take the state's bar exam — even though they have already taken a bar exam and practiced in another state . . ."); *see also Shapiro v. Cooke*, 552 F. Supp. 581, 589 (N.D. N.Y. 1982), *aff'd,* 702 F.2d 46 (2d Cir. 1983) ("if a state may constitutionally require all applicants to take [a Bar] examination, the Commerce Clause is not offended by a rule which permits some, but not all, out-of-state attorneys to be admitted on waiver of the examination.").

Petitioners do not cite let alone discuss or distinguish any of these cases. They do not (and cannot) argue that the California Supreme Court created a conflict in Commerce Clause authority. They do not compare California governance of lawyers, either generally or with specific regard to section 6125, to any regulation

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(Cont'd)

California Supreme Court, Petitioners took the position that **even when** they practiced law in California they were **not** obliged to follow the California Rules of Professional Responsibility and statutory provisions (other than section 6125) which govern relationships in California between lawyers and clients.

or rule upheld against Commerce Clause challenge in any of these precedents. They do not contend that section 6125 imposes any greater burden on commerce than was found acceptable in any such prior decision. Inability to place contentions now made in the context of existing law is fatal to the Petition.

B. Petitioners Can Supply No Evidence That Section 6125 Impedes Interstate Commerce.

It is not an unreasonable interference with commerce "for attorneys of other states to be required to take the California bar to be able to practice in California." *Giannini*, 911 at 358-59; *accord*, *Leis*, 439 U.S. at 443 ("This Court, on several occasions, has sustained state bar rules that excluded out-of-state counsel from practice altogether or on a case-by-case basis" [citations omitted]).

Because, as noted, Petitioners failed to make a Commerce Clause claim in any prior proceeding, the record is devoid of evidence of any undue burden associated with section 6125. Secondary authorities, including those on which Petitioners rely, acknowledge that no empirical study has been conducted to assess how application of unauthorized practice statutes to out-of-state lawyers may impact commerce. Brakel & Loh, 50 Wash. L. Rev. at 737-738 (1975); Daly, *Resolving Ethical Conflicts in Multijurisdictional Practice — Is Model Rule 8.5 The Answer, An Answer, or No Answer At All*, 36 S. Tex. L. Rev. 715, 725 n.23, 729-731 (1995); Woolfram, *Sneaking Around in the Legal Profession: Interjurisdictional Unauthorized Practice by Transactional Lawyers*, 36 S. Tex. L. Rev. 665, 685 (1995); *see also* Rhode, *Policing the Professional Monopoly: A Constitutional and Empirical Analysis of Unauthorized Practice Prohibitions*, 34 Stan. L. Rev. 1, 13 n.47 (1981) (survey **excludes** "decisions involving unauthorized practice by . . . attorneys not licensed in the jurisdiction . . . [which] raise issues substantially different from those addressed in this article."); Needham, *Splitting Bar Admission into Federal and State Components: National Admission for Advice*

on Federal Law, 45 Kan. L. Rev. 453, 473-474 (1997) (insufficient information available regarding discipline of out-of-state lawyers). No **actual** example is contained in the record below or described in the Petition where interstate commerce was **in fact** excessively hindered by section 6125 or any other effort to regulate interaction between a California resident and an attorney licensed to practice only by another jurisdiction.

Statutory prohibitions enacted by the states against unauthorized practice have existed for more than 200 years, and enforcement of those laws against out-of-state attorneys has taken place over at least 150 years. Annot., *Right of Attorney Admitted in One State to Receive Compensation for Services Rendered in Another State Where He Was Not Admitted to the Bar*, 11 A.L.R.3d 907, 911 (1967) (referencing *Ames v. Gilman*, 51 Mass. (10 Met.) 239 (1845), denying fees to an attorney licensed by New Hampshire based upon a 1785 statute prohibiting unauthorized practice of law in Massachusetts). During the past two centuries, interstate commerce has grown, multi-state business operations have grown, the legal profession has grown, in-house legal departments have been created and have grown, multi-state law firms have emerged and grown. There is no **evidence** that any such progression has been slowed by rules which put an attorney's fees at risk if he plies his trade in a state where he is not authorized to practice law.

There is likewise no evidence that section 6125 impermissibly restricts unidentified "client's" ability to select counsel. There is nothing on the record in this matter indicating that "clients" are or will be deprived of access to a pool of competent attorneys due to enforcement of California's unlicensed practice provision. Indeed, an equally compelling argument is that the statute works to the **benefit** of "clients" by protecting them from incompetent counsel or counsel unfamiliar with local laws, regulations, and practices.[10]

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10. Of course, that is precisely what happened here. This action involves an instance where California clients (not the hypothetical out-of-state client (Cont'd)

Burdens identified by Petitioners as supposedly flowing from the existence of different rules in different states (Pet. at 19, 28) also cannot be deemed excessive. Putting aside the fact that such differences are inherent in our federal system, and putting aside as well the fact (as described in the next section) that unauthorized practice authorities rest upon generally agreed principles, this contention is an embarrassment to the profession. Lawyers are **trained** to identify and understand applicable law. The Commerce Clause was not intended to relieve attorneys from their obligation to follow the rules of professional conduct which exist in each place they may wish to practice.

Potential burden on interstate commerce, if any, has been minimized because the California Supreme Court crafted its opinion carefully to avoid intrusion into the "business" of other states. The most significant portions of the decision, those defining what it means to practice law "**in California**," are expressly limited to relationships involving **California clients**. PA at 10.

The *Birbrower* opinion also creates a safe-harbor relating to interstate commerce aspects of a transaction not connected to California practice of law. According to the California Supreme Court, section 6125 **allows** out-of-state attorneys to enforce fee agreements

> to the extent it is possible to sever the portions of the consideration attributable to [the attorney's] services illegally rendered in California from those attributable to [the out-of-state] services.

PA at 29. Thus, notwithstanding Petitioners' fears, California does **not** seek to regulate the practice of law in other states. PA at 24-28.

(Cont'd)
described in Petitioners' papers) discovered that out-of-state counsel had misled them into an attorney-client relationship and mishandled a transaction and litigation involving California parties and application of California substantive law.

The burdens on interstate commerce, if any, that the California statute imposes are incidental and fall far short of outweighing the benefits that the provision promotes. It does not interfere excessively with interstate commerce and is rationally related to California's strong interest in regulating the practice of law.

C. The California Supreme Court Has Merely Applied A Traditional Rule, And Has Done So In A Way Which Neither Impairs Nor Threatens Interstate Commerce.

The California Supreme Court followed the long established rule that "an attorney who is not admitted to practice in the state where he performs services is not entitled to recover compensation for such services even though he is admitted to practice in another state." 11 A.L.R. 3d at 908; *also see* Daly, 36 S. Tex. L. Rev. at 771 ("[d]enial of fees is a traditional remedy for the unauthorized practice of law by [out-of-state] attorneys . . ."); Woolfram, 36 S. Tex. L. Rev. at 691-692. Recent cases enforcing the "traditional remedy" of denial of fees include *Longval v. W.C.A.B.*, 51 Cal. App. 4th 792, 59 Cal. Rptr. 2d 463 (1996); *Servidone Construction Corp. v. St. Paul Fire & Marine Insurance Co.*, 911 F. Supp. 560 (N.D. N.Y. 1995); *In re Peterson*, 163 B.R. 665 (Bkrtcy. D. Conn. 1994); *Perlah v. S.E.I. Corp.*, 29 Conn. App. 43, 612 A.2d 806 (1992); *Ranta v. McCarney*, 391 N.W. 2d 161 (N.D. 1986); *Peterson Lozoff v. Shore Heights, Ltd.*, 35 Ill. App. 3d 697, 342 N.E. 2d 475 (1976); and *Spivak v. Sachs*, 16 N.Y. 2d 163, 263 N.Y.S. 2d 953 (1965).

The traditional remedy has **not** been afforded mechanical application. Courts have crafted exceptions and on occasion stepped away from strict adherence to avoid results which would offend common sense. *E.g.*, *El Gamayel v. Seaman*, 72 N.Y. 2d 701, 536 N.Y.S. 2d 406 (1988) (permissible for foreign attorney residing in Washington D.C. to advise New York client by telephone regarding status of legal proceeding in Lebanon); *Dietrich Corp.*

v. King Resources Co., 596 F.2d 422 (10th Cir. 1979) (fees allowed for law professor employed as consultant to duly licensed litigation counsel); *Spanos v. Skouras Theatres Corp.*, 364 F.2d 161 (2d Cir.) (en banc), *cert. denied*, 385 U.S. 987 (1966) (fees awarded to out-of-state attorney practicing in New York at the invitation of and in association with licensed local counsel because of his specific skill with respect to an issue of federal law raised in a federal lawsuit); *Estate of Waring*, 221 A.2d 193 (isolated instances of physical presence in New Jersey did not preclude award of fees to New York lawyers whose services were performed largely outside New Jersey and did not involve matters of New Jersey law); *Appell*, 204 A.2d 146 ("peculiar circumstances" of "tangled and interwoven elements" of client financial transactions in New York and New Jersey justified recovery by New York lawyers for fees relating to New Jersey issues).[11]

Two critical characteristics permeate these decisions. First, the courts have recognized that because unauthorized practice by out-of-state attorneys can arise in a nearly unlimited number of different forms, the flexibility afforded through case by case adjudication is essential. *E.g.*, *Spanos*, 364 F.2d at 171("questions best left to another day"); *Peterson*, 163 B.R. at 674-675 (holding strictly

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11. Courts in several jurisdictions have undertaken general rule-making pertaining to practice by out-of-state lawyers. *See, e.g. New York Criminal and Civil Courts Bar Association v. Jacoby* [& Meyers], 61 N.Y. 2d 130, 460 N.E. 2d 1325 (1984) (recognizing illegality of out-of-state lawyers' local activities, but permitting multi-state firm to practice through locally licensed lawyers); *The Florida Bar v. Savitt*, 363 So. 2d 559 (Fla. 1978) (establishing rules for out-of-state attorneys of a national law firm to practice locally in association with and under the supervision of licensed lawyers). State courts also have created more limited exceptions by rule and have upheld other exceptions created by statute. *See, e.g.*, Cal. Rules of Court, Rule 983 [pro hoc vice admission] and Rule 988 [Registered Foreign Legal Consultants]; *Consumers Lobby v. Public Utilities Comm.*, 25 Cal. 3d 891, 160 Cal. Rptr. 124 (1980) (upholding statute permitting non-attorney to recover fees for representation in certain administrative agency proceedings).

limited to facts where the court acknowledged that "[t]he contours of the so-called 'federal practice exception' . . . are not sharply defined"); *Estate of Waring*, 221 A.2d at 198 ("questions of unlawful practice will turn on the particular facts presented").

Second, the courts have also recognized that it is important to take account of "modern realities" in commerce and in the practice of law. As stated by New York's highest court more than 30 years ago,

> [t]here is, of course a danger that [New York's statute on unlawful practice] could be stretched to outlaw customary and innocuous practice. We . . . recognize[e] [given] the numerous multi-State transactions and relationships of modern times, we cannot penalize every instance in which an attorney from another State comes into our State for conferences or negotiations relating to a New York client and a transaction somehow tied to New York. We can decide those cases when we get them but they are entirely unlike the present one.

Spivak, 16 N.Y. 2d at 168; *accord, e.g., Spanos*, 364 F.2d at 170-171.

Contrary to Petitioners' cries of apocalypse, a fair reading of the California Supreme Court opinion demonstrates that these salutory characteristics of the decisional law have been enhanced. *Birbrower* expressly endorses the case by case approach appropriate to this subject area. PA at 11. By incorporating Ethical Consideration EC 3-9 of the ABA Model Code of Professional Responsibility, the Supreme Court provides a more complete framework for analysis than appears in prior cases. Moreover, the Court acknowledges specifically that in some instances judicial accommodation must be made for "interjurisdictional practice."

And contrary to Petitioner's protestation that handcuffs have been applied (Pet. at 23), the decision leaves open possibilities for refinement of the traditional rule as future circumstances may demand.

Birbrower also contributes two helpful features to the jurisprudence of unauthorized practice. First, by invoking the doctrine of severability to afford Petitioners an opportunity to recover that portion of their fees earned in New York, potential harshness of the traditional remedy is eased and the "burden," if any, on commerce is reduced.[12] Petitioners' criticisms ring hollow given the fact that the California Supreme Court potentially left them better off than older decisions might dictate.

Second, the California Supreme Court acknowledges in a thoughtful way that there are limits to the reach of state authority to regulate the practice of law. PA at 10. This exact formulation already has been quoted, adopted, and applied by the highest court of another state. In *Fought & Company, Inc. v. Steel Engineering and Erection, Inc.*, 87 Haw. 37, 951 P.2d 487 (1998), the Supreme Court of Hawaii was asked whether fees could be claimed for the work of an out-of-state attorney who assisted local counsel to handle a Hawaii lawsuit without being physically present in that state. Although Petitioners cite this decision (Pet. at 28), they neglect to mention that it creates **no** conflict with *Birbrower* and does **not** demonstrate that the law in this area is in turmoil. To the contrary,

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12. Some prior cases suggest an "all or nothing" attitude, even depriving the attorney of compensation for work conducted in his "home" state. *See Ginsburg v. Fahrney*, 45 Misc. 2d 777, 258 N.Y.S. 2d 43 (1965). The few departures rely on the doctrine of *quantum meruit*, which can present more difficult problems of proof for the unpaid lawyer. *E.g., Western Life Insurance Co. v. Nanney*, 296 F. Supp. 432 (E.D. Tenn. 1969) (refusing to enforce state unauthorized practice provision because of interstate nature of underlying matter, but then rejecting attorneys' *quantum meruit* claim for fees).

the Hawaii Supreme Court builds on the analytical process articulated by the California Supreme Court. Expressly applying the "factors suggested by *Birbrower*," the *Fought* tribunal concluded that the out-of-state attorney was not subject to regulation by Hawaii even though he had assisted the client dealing with a litigation in that state.

Thus, in the very first unauthorized practice case in which *Birbrower* is cited, none of the dire consequences for commerce predicted by Petitioners is evident. If anything, *Fought* demonstrates that local regulation of the practice of law following *Birbrower* is not likely to restrict or excessively burden interstate commerce.

IV. IT IS NOT APPROPRIATE TO CONSIDER PETITIONERS' INVITATION TO ESTABLISH A FEDERAL RULE GOVERNING ATTORNEY PARTICIPATION IN COMMERCIAL ARBITRATIONS.

Under the guise of battling a supposed obstacle to commerce, Petitioners in effect ask this Court to instruct the states to draft or interpret unauthorized practice laws to permit an attorney licensed by any jurisdiction to represent clients in commercial arbitrations anywhere else. Pet. at 28. There is no justification for such a request, and likely no authority for issuing any such edict.

Representation of a party in commercial arbitration falls within the definition of the "practice of law." *See, e.g., The Florida Bar Re Advisory Opinion on Nonlawyer Representation In Securities Arbitration*, 696 So. 2d 1178 (Fla. 1997) (identification of client rights at stake before, during, and after arbitration hearing); *Baron*, 2 Cal. 3d at 543, 86 Cal. Rptr. at 678 (representations before certain administrative boards and commissions). The pertinent questions then are whether such acts are "unauthorized," and who should make that determination.

Petitioners are correct that only two cases address the first of these issues.[13] *Birbrower* holds that representation by an out-of-state lawyer in connection with a commercial arbitration is "unauthorized" as defined by the California statute. Conversely, the U.S. District Court in *Williamson v. John D. Quinn Const. Corp.*, 537 F. Supp. 613 (S.D. N.Y. 1982), held that similar activities were not "unauthorized" under New York law. There are reasons why these two decisions are distinguishable, including reasons beyond those noted by the California Supreme Court (PA at 17-18)[14] and beyond the obvious observation that a district court's interpretation of state law is not controlling. But even assuming *arguendo* that a schism in authority exists, attempted resolution by this Court is not warranted.

Regulation of the practice of law is part of the sovereign power reserved to the states. *Hoover*, 446 U.S. at 569 n.18; *Hawkins v. Moss*, 503 F.2d 1171, 1175-76 (4th Cir. 1974), *cert. denied*, 420 U.S. 928 (1975) ("licenses to practice law, granted by the courts of one state, have no extraterritorial effect or value and can vest no

13. A few other pronouncements also exist. *See* N.J. Ethics Op. No. 28 (1994) (one instance of representing a party in arbitration not unauthorized practice); Ill. Ethics Op. No. 94-5 (1994) (several representations in arbitration deemed unauthorized practice).

14. For example, the two fee claimants in *Williamson* were New Jersey lawyers who had been **invited** because of their particular skills to participate in the arbitration in association with the regular outside counsel of a sophisticated client. *Williamson* thus is a near clone to *Spanos* on its facts, and a far cry from this situation (where Petitioners brought no special skill to the engagement, were not invited into the matter by California counsel, and never associated with a member of the California Bar in representing ESQ). Additionally, one of the two New Jersey fee claimants (indeed the sole owner of the small firm under which both practiced) **was also a member of the New York Bar** and a member of the Bar of the District Court. By contrast, no Birbrower attorney was a member of the California Bar. And further yet, the court in *Williamson* seems to have believed that aside from a local bar association report there was no authority pertinent to this issue. That reduces the instructive weight of its decision as well.

right in the holder to practice law in another state"); *see Leis*, 439 U.S. at 443 (no "federal" right to practice law in any state). Article X of the Constitution specifically reserves rights of regulation to the states absent express delegation of authority to the United States. Federal legislation encroaching upon a state's power to set its own standards for bar admission, discipline, and regulation therefore "would stand on somewhat debatable constitutional foundations." Woolfram, 36 S. Tex. L. Rev. at 703 n.125; *accord,* Needham, 45 Kan. L. Rev. at 509.

Petitioners forget that the California Supreme Court did **not** reject the proposition that an exemption to section 6125 for general commercial arbitration might be appropriate. Instead, it deemed the issue as "best left for the Legislature." PA at 19. The California Legislature **has** accepted this invitation. As of June 1, 1998, a bill (AB 2086, reproduced at RA 38a-40a), which would exclude out-of-state lawyers' engagements for arbitrations from the scope of the statute, had been approved by the California Assembly and was pending before the State Senate.[15]

The principle of separation of powers is fundamental to governance in the United States. Within California, application of the concept has now directed the question of representation in commercial arbitrations raised in *Birbrower* to the appropriate branch of state government. For this Court to decide the same issue on certiorari, and to do so even before the state has full opportunity to deliberate and possibly act, would jeopardize state sovereignty. It would also interfere with the decision of a state's highest court regarding how authority over questions of public policy should be allocated pursuant to the state's own constitution.

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15. Status of legislation in California is reported on a current basis through the California Legislative Counsel's web site (http://www.leginfo.ca.gov).

Regulation of attorneys in a federal system is not always consistent, logical, or tidy. That is not, however, adequate reason to nationalize all or any part of the practice of law. What the Petition seeks is beyond the appropriate authority of this Court to grant.

V. PETITIONERS PROVIDE NO AUTHORITY OR REASON TO JUSTIFY EXTENSION OF THE FEDERAL ARBITRATION ACT TO LIMIT REGULATION BY THE STATES OF THE PRACTICE OF LAW.

Petitioners do not and cannot identify a conflict in FAA case authority created by the California Supreme Court in this matter. Nor do they explain how any recognized FAA purpose is impaired by state regulation of the practice of law.

This Court has determined that the FAA does not contain an express preemptive provision, and that the FAA does not reflect congressional intent to occupy the entire field of arbitration. *Volt Information Sciences, Inc. v. Board of Trustees of the Leland Stanford Junior University*, 489 U.S. 468, 479 (1989). Preemption therefore exists only if

> "compliance with both federal and state regulations is a physical impossibility," or because the state law stands "as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."

California Federal Savings and Loan Association v. Guerra, 479 U.S. 272, 281 (1987) (citations omitted). Neither prong of this test applies.

No conflict of the first order exists because it is possible to comply with both section 6125 and the FAA. The FAA does not

mandate general procedures for commercial arbitration[16] and does not address the question of party representation in such a proceeding. Adherence to section 6125 does not require violation of the FAA.

Turning to conflict arising because a state law is inconsistent with the purposes of a federal statute, Congress' principal aim for the FAA was to ensure that "private arbitration agreements are enforced according to their terms." *Volt*, 489 U.S. at 479. The FAA does not prevent "the enforcement of agreements to arbitrate under different rules than those set forth in the Act itself." *Id.* Because "[a]rbitration under the Act is a matter of consent . . . and parties are generally free to structure their arbitration agreements as they see fit," where the parties agree to abide by state rules of arbitration, "enforcing those rules according to the terms of the agreement is fully consistent with the goals of the FAA. . . ." *Id.* Here, as in *Volt*, the subject arbitration agreement contained a California choice-of-law provision. PA at 4, 20. Application of California's section 6125 thus was in accord with party intent and, under *Volt*, consistent with the FAA goal of honoring such agreements according to their terms.

California Supreme Court treatment of this issue is also consistent with FAA goals identified in *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1 (1983), and reaffirmed in *Volt*, of assuring that matters subject to arbitration are in fact arbitrated and that arbitration awards are enforced. *Moses H. Cone*, 460 U.S. at 24-25. Application of section 6125 to a commercial arbitration does not make the underlying dispute any more or less amenable to arbitration. Similarly, there is nothing in the California Supreme Court opinion or in section 6125 which suggests that the award rendered in a commercial arbitration in

16. Section 7 of the FAA, which deals with the summoning of witnesses before arbitrators, is the only provision in the statute remotely procedural in nature.

which an out of state attorney has represented a party would not be enforceable or enforced. *Cf.* Woolfram, 36 S. Tex. L. Rev. at 692-693. Section 6125 places obligations and risks on the out-of-state lawyer engaged in unauthorized practice, not on the arbitration process or on any party in arbitration proceedings.

CONCLUSION

New York directs its attorneys to obey the standards for professional conduct of each other jurisdiction in which they happen to practice. *See* N.Y. DR 3-101(B). Petitioners ignored this proscription. They never read or considered the California statutes and rules governing lawyer behavior in the state before or during their representation of ESQ in California. Petitioners thus risked the usual consequence for violation of one such rule: loss of fees, at least in part, for unauthorized practice. Not every possible pecuniary loss, however, creates issues of constitutional merit. The Petition should be denied accordingly.

Respectfully submitted,

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APPENDIX

APPENDIX A — NOTICE OF REMOVAL OF ACTION UNDER 28 UNITED STATES CODE SECTION 1441(b) (DIVERSITY) FILED FEBRUARY 11, 1994

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

[stamp] Original Filed FEB 11 1994
C-94 02105 JV EAB [stamp]

No. _____

ESQ. BUSINESS SERVICES, INC., a California corporation; et al.,

Plaintiffs,

vs.

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., a New York corporation; et al.,

Defendants.

Appendix A

NOTICE OF REMOVAL OF ACTION
UNDER 28 UNITED STATES CODE
SECTION 1441(b) (DIVERSITY)

Date:
Time:
Dept.:

TO THE CLERK OF THE ABOVE-ENTITLED COURT:

PLEASE TAKE NOTICE that defendants Birbrower, Montalbano, Condon & Frank, P.C., and Kevin E. Hobbs hereby remove to this court, the state court action described below.

1. On January 12, 1994, an action was commenced in the Superior Court of the State of California in and for the County of Santa Clara, entitled ESQ Business Services, Inc., a California corporation and Iqbal Sandhu, plaintiffs, v. Birbrower, Montalbano, Condon & Frank, P.C., a New York Corporation and Kevin E. Hobbs, defendants, as Case NO. CV737595 attached hereto as Exhibit A.

2. The first date on which defendants Birbrower, Montalbano, Condon & Frank, P.C., and Kevin E. Hobbs received a copy of the said complaint was January 14, 1994, when defendants were served via facsimile with a copy of the said complaint in the said state court. A copy of the summons was not included. Defendants Birbrower, Montalbano, Condon & Frank, P.C., and Kevin E. Hobbs received a copy of the summons from the said state court on or about January 21, 1994. A copy of the summons is attached hereto as Exhibit B.

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3. This action is a civil action of which this court has original jurisdiction under 28 United States Code section 1332, and is one which may be removed to this court by defendants pursuant to the provisions of 28 United States Code section 1441(b) in that it is a civil action between citizens of different states and the matter in controversy exceeds the sum of $50,000, exclusive of interest in costs because, among other things, plaintiffs' complaint contests a fee agreement between defendants and plaintiffs providing for the payment of $1.15 million. In the complaint, plaintiffs maintain that the reasonable value of defendants' legal services to plaintiffs "was no more than a few hundred thousand dollars, if that." (Plaintiffs' Complaint, ¶ 19.)

4. Defendants are informed and believe that plaintiff ESQ Business Services, Inc., was, and still is, a corporation incorporated under the laws of the State of California, having its principal place of business in the State of California. Defendants are informed and believe that plaintiff Iqbal Sandhu was, and still is, a citizen of the State of California. Defendant Birbrower, Montalbano, Condon & Frank, P.C., was, at the time of the filing of this action, and still is, a corporation incorporated under the Laws of the State of New York, having its principal place of business in the State of New York. Defendant Kevin E. Hobbs was, at the time of the filling of this action, and still is, a citizen of the State of New York. Birbrower, Montalbano, Condon & Frank, P.C., and Kevin E. Hobbs are the only defendants that have been served summons and complaint in this action.

Dated: February 11, 1994

HOGE, FENTON, JONES & APPEL, INC.

By s/ William J. Elfving
WILLIAM J. ELFVING
Attorneys for Defendants

APPENDIX B — DEFENDANTS BIRBROWER, MONTALBANO, CONDON & FRANK, P.C. AND KEVIN F. HOBBS' OPPOSITION TO PLAINTIFFS' MOTION FOR LEAVE TO AMEND AND MOTION FOR REMAND FILED MARCH 25, 1994

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

No. C-94 20105 JW (ARB)

ESQ BUSINESS SERVICES, INC., a California corporation; et al.,

Plaintiffs,

vs.

Appendix B

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., a New York corporation; et al.,

Defendants.

AND RELATED COUNTERCLAIM.

DEFENDANTS BIRBROWER, MONTALBANO, CONDON & FRANK, P.C. AND KEVIN F. HOBBS' OPPOSITION TO PLAINTIFFS' MOTION FOR LEAVE TO AMEND AND MOTION FOR REMAND

Date: April 15, 1994
Time: 9 a.m.
Dept.: 8

INTRODUCTION

ESQ Business Services, Inc., and Iqbal Sandhu ("Plaintiffs") originally filed a complaint in this action in Santa Clara County Superior Court. Defendants properly removed the action to this court, on diversity of citizenship grounds. Plaintiffs now seek to amend their complaint to add another plaintiff, a New York corporation also called ESQ Business Services, Inc. ("ESQ-NY"), for the sole purpose of destroying diversity jurisdiction. For the reasons set forth below, defendants respectfully request that this court deny plaintiffs' motion for leave to amend and motion for remand.

FACTUAL BACKGROUND

As stated in plaintiffs' complaint, this dispute arises out of defendants' legal representation regarding a Software

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Development and Marketing Agreement with Tandem Computers Incorporated. Plaintiffs initially engaged defendants to give legal advice regarding a proposed agreement with Tandem. Plaintiffs later retained defendants to represent them when a dispute arose out of this Tandem software agreement. Plaintiffs entered into two separate fee agreements with defendants for defendants' legal services. The first was a contingent agreement. The second, was a revised agreement intended to supersede the first. This new agreement was drafted at plaintiffs' request to provide a flat fee, rather than a contingent fee.

Under the terms of the revised attorneys' fee agreement, plaintiffs were required to make installment payments to defendants commencing in December 1993. Instead of making said payment, plaintiffs filed the instant action in Santa Clara County Superior Court. Defendant Birbrower, Montalbano, Condon & Frank, P.C., properly removed the action to this court and filed a counterclaim against plaintiffs for breach of contract and other related claims. Although the counterclaim alleges some involvement of ESQ-NY, defendants did not name ESQ-NY as a counter-defendant, nor seek any recovery against ESQ-NY.

ESQ-NY was a party to the original fee agreement, of which plaintiffs seek declaratory relief. However, plaintiffs intentionally chose not to include ESQ-NY as a plaintiff in this action. Plaintiffs made this decision even though they were fully aware of ESQ-NY's participation when it first filed this lawsuit. Instead, now that this action has been removed to federal court, plaintiffs seek to amend their complaint to include ESQ-NY. Because of plaintiffs' bad faith and improper motive in only now seeking to amend the complaint, this court should exercise its discretion and deny plaintiffs' motion for leave to amend and motion for remand.

Appendix B

LEGAL ARGUMENT

Plaintiffs contend that the rule 15 of the Federal Rules of Civil Procedure permits the requested amendment in this action. In addition, plaintiffs rely on 28 United States Code section 1447(e) to support their position that the motion for leave to amend and the motion to remand should be granted. Plaintiffs' argument fails because (1) section 1447(e) does not apply to this action, and (2) even if the court were to hold section 1447(e) applicable, plaintiffs improperly apply this provision to the circumstances of this action.

I

28 UNITED STATES CODE SECTION 1447(e) DOES NOT APPLY TO THIS ACTION.

Plaintiffs' reliance on 28 United States Code section 1447(e) to support their argument that amendment of the complaint to add ESQ-NY as an additional plaintiff is flawed. Section 1447(e) provides: "If after removal the plaintiff seeks to join additional *defendants* whose joinder would destroy subject matter jurisdiction, the court may deny joinder, or permit joinder and remand, the action to the state court." (Emphasis added.) (28 U.S.C. § 1447(e).) In the instant action, plaintiffs seek to join an additional non-diverse *plaintiff*, not a defendant. Had Congress intended for this provision to apply to joining plaintiffs, it would have used the word "parties" instead of "defendants." Section 1447(e) does not apply to the circumstances of this case. Further, plaintiffs misrepresent *Righetti* v. *Shell Oil Co.*, 711 F.Supp. 531 (N.D. Cal. 1989). This issue in *Righetti* was whether plaintiff should be granted leave to amend its complaint to substitute a *defendant* for a fictitiously named defendant. The issue was not whether a non-diverse plaintiff could be joined.

Instead, the proper analysis requires compliance with rule 19 of the Federal Rules of Civil Procedure. The Ninth Circuit has used this approach in *Takeda* v. *Northwestern Nat. Life Ins. Co.* (1985) 765 F.2d 815.[1] In its discussion of the propriety of remand the court stated: "Ordinarily, when removal is proper at the outset, federal jurisdiction is not defeated by later changes or developments in the suit." (*Id.* at p. 819.) The exception to this rule, according to *Takeda*, is when an indispensable party would destroy diversity. Accordingly, this court must find that ESQ-NY is indispensable in order to allow its joinder.

Rule 19 of the Federal Rules of Civil Procedure prescribes a bifurcated analysis to determine whether parties should or must be joined. The court must first consider whether the party is necessary under Rule 19(a) of the Federal Rules of Civil Procedure by looking at whether:

> "(1) in his absence complete relief cannot be accorded among those already parties, or (2) he claims an interest relating to the subject of the action and is so situated that the disposition of the action in his absence may (i) as a practical matter impair or impede his ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of his claimed interest." (Fed. Rules Civ.Pro., rule 19(a).)

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1. *Takeda* was decided prior to the 1988 amendment of 28 United States Code section 1447 that added subdivision (e). Since the section 1447(e) analysis applies only when a plaintiff seeks to add a non-diverse *defendant*, this court should follow the *Takeda* analysis in this action.

Under this analysis, ESQ-NY is not even a necessary party to this action. Complete relief can be accorded among all parties. Defendants have asserted no claims against ESQ-NY, so its joinder is not necessary. ESQ-NY's interests do not need protection since it does not face claims against it that would subject it to liability. It is clear that ESQ-NY is not even a necessary party to this action.

Even if the court decides ESQ-NY is necessary, "(i)f the party is necessary but his joinder will destroy jurisdiction, as is the case here . . . then we must consider whether 'in equity and good conscience' the action should proceed without his joinder, i.e., whether he is indispensable." (*Takeda* v. *Northwestern Nat. Life Ins. Co., supra*.) Four factors are relevant to this inquiry: (1) to what extent a judgment rendered in the person's absence might be prejudicial to him or those already parties; (2) the extent to which, by protective provisions in the judgment, by the shaping of relief, or other measures, the prejudice can be lessened or avoided; (3) whether a judgment rendered in the person's absence will be adequate, (4) whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder. (Fed. Rules Civ.Proc., rule 19(b).) Since adding ESQ-NY as a plaintiff would destroy diversity in this action, the court must consider whether "in equity and good conscience" the case should proceed without joinder, or if the case more properly should be remanded to state court.

"The Rule 19 analysis is easily stated, but not so easily applied. The rule emphasizes practical consequences and its application depends on the circumstances of each case." (*Id.*) In the instant action, a judgment rendered without the inclusion of ESQ-NY will not prejudice any parties. Defendants do not seek relief against ESQ-NY and plaintiffs' fear of ESQ-NY's joint and

several liability is unfounded. Any judgment rendered will be adequate even if ESQ-NY is not joined as a party to this case. Finally, the threat of litigation against or by ESQ-NY in a concurrent state court action is de minimis. If ESQ-NY was concerned about that it would have been a named plaintiff in the action from the beginning. It is also relevant that although Iqbal Sandhu, the owner of ESQ Business Services, Inc., of California, chose to be a plaintiff, Kanwaljit ("Kamal") Sandhu, the owner of ESQ-NY, is not named as a plaintiff in the proposed amended complaint. ESQ-NY is not an indispensable party that must be joined to this action. This court may, and should, proceed without joinder of ESQ-NY. Plaintiffs' motions should be denied.

II

EVEN IF THIS COURT RULES THAT 28 UNITED STATES CODE SECTION 1447(e) APPLIES TO THIS ACTION, THE COURT SHOULD DENY PLAINTIFFS' MOTIONS.

Even if the court concludes that section 1447(e) applies to the joinder of non-diverse plaintiffs, balancing of the equities requires that plaintiffs' motions be denied. The court should exercise its wide discretion to deny plaintiffs' motions.

Under the 28 United States Code section 1447(e) analysis, "(t)he determination of whether a joinder of a non-diverse party is appropriate requires a balancing of the equities involved." (*Heininger* v. *Wecare Distributors, Inc.* (S.D. Fla. 1989) 706 F.Supp. 860, 862.) To assist the trial court in its determination of whether a joinder of a non-diverse party is appropriate, the federal courts have outlined several factors to consider. The trial court must consider (1) the extent to which the purpose of the

amendment is to defeat federal jurisdiction, (2) whether plaintiff has been dilatory in asking for amendment, (3) whether plaintiff will be significantly injured if amendment is not allowed, and (4) any other factors bearing on the equities. (See *Heininger* v. *Wecare Distributors, Inc., supra; Hensgens* v. *Deere & Company* (5th Cir. 1987) 833 F.2d 1179.)

A. *Plaintiffs' Proposed Amendment Seeks Only to Destroy Diversity Jurisdiction.*

Plaintiffs' motivation in filing this motion to amend and remand is relevant to the court's analysis.

> "(T)he motive of a plaintiff in seeking the joinder of an additional defendant is relevant to a trial court's decision to grant the plaintiff leave to amend his original complaint. Further, . . . a trial court should look with particular care at such motive in removal cases, when the presence of a new defendant will defeat the court's diversity jurisdiction and will require a remand to state court." (*Desert Empire Bank* v. *Insurance Company of North America* (9th Cir. 1980) 623 F.2d 1371.)[2]

Plaintiffs initiated this lawsuit. They intentionally chose not to name ESQ-NY as a co-plaintiff even though they were fully aware of ESQ-NY's existence and involvement with defendants. Not to be overlooked are the facts that ESQ-NY, not the plaintiffs, entered into the agreement with Tandem. ESQ-NY is owned by

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2. Although the instant action involves Plaintiffs' seeking to add a non-diverse plaintiff to the complaint, not a defendant, the same inquiry into plaintiffs' motive is applicable.

Kanwaljit Sandhu, Iqbal Sandhu's brother, yet the plaintiffs have not sought to add Kanwaljit Sandhu as a plaintiff. Plaintiffs' coming forward to name ESQ-NY as a co-plaintiff, after the action has been properly removed from state court, reeks of bad faith and ulterior motive. Plaintiffs seek only to undermine the integrity of the federal court and this court should not permit such activity.

B. *Plaintiffs Have Unreasonably Delayed in Naming ESQ-NY as Co-Plaintiff.*

As indicated above, plaintiffs should have named ESQ-NY as a party to this action when they first filed the lawsuit. Had plaintiffs included ESQ-NY in the state court complaint, diversity of citizenship would not have existed, and defendants would have been precluded from removing the action to this court. Plaintiffs' late decision to include a previously known co-plaintiff has already resulted in increased litigation costs. In the interests of judicial economy and fairness, this court should not now sanction plaintiffs' belated amendment. Instead, this court should preclude plaintiffs from amending the complaint at this dilatory stage.

C. *Denial of Amendment Will Not Significantly Injure Plaintiffs.*

Plaintiff asserts that unless the court allows the proposed amendment, "ESQ-NY will face the ongoing threat that defendants will attempt to assert these claims against it in a separate proceeding." (Plaintiffs' Memorandum of Points and Authorities in Support of Motion for Leave to Amend and Motion for Remand, p. 6, lns. 2-4.) Plaintiffs further assert that since the Birbrower Law firm makes allegations involving ESQ-NY in its counterclaim, if proven, these allegations would make ESQ-NY jointly and severally liable for all claims against plaintiffs. This argument hardly deserves a response.

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Defendants have not served ESQ-NY with any action, filed any action against it, nor do they seek any recovery from it. Passing references to ESQ-NY does not pose any threat to ESQ-NY, even if the claims against plaintiffs were proven. The counterclaim does not change the significance of plaintiffs' failure to included ESQ-NY as a co-plaintiff from the outset of this action. This court's denial of plaintiffs' motion to amend and for remand will not significantly harm plaintiffs. In fact, it will not harm plaintiffs at all.

CONCLUSION

Plaintiffs seeks to amend their complaint to add ESQ-NY solely to defeat diversity jurisdiction and to have this court remand the action to state court. Under rule 19 of the Federal Rules of Civil Procedure, ESQ-NY is not an indispensable party, and this action should continue without plaintiffs' proposed amendment. Even if the court decides that section 1447(e) applies to this joinder issue, because of plaintiffs' obvious motive and the lack of harm that will result if the amendment is denied, the court should use its discretion to deny plaintiffs motions. Therefore, defendants respectfully request that this court deny plaintiffs' motion for leave to amend and motion for remand.

Dated: March 25, 1994

HOGE, FENDON, JONES & APPEL, INC.

By s/ William J. Elfving
By s/ David P. Eby
WILLIAM J. ELFVING
Attorneys for Defendants

APPENDIX C — PETITION FOR WRIT OF MANDATE AND/OR PROHIBITION WITH SUPPORTING MEMORANDUM OF POINTS AND AUTHORITIES

REQUEST FOR STAY

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA,

SIXTH APPELLATE DISTRICT

No. _____
Santa Clara County Superior
Court No. CV737595

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., a New York corporation, and KEVIN F. HOBBS,

Petitioners,

vs.

SUPERIOR COURT OF THE STATE OF CALIFORNIA IN AND FOR THE COUNTY OF SANTA CLARA,

Respondent,

ESQ BUSINESS SERVICES, INC.,

Real Party in Interest.

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PETITION FOR WRIT OF MANDATE
AND/OR PROHIBITION WITH SUPPORTING
MEMORANDUM OF POINTS AND AUTHORITIES

EXHIBITS FILED UNDER SEPARATE COVER

IN THE MANDAMUS PROCEEDING TO VACATE AN ORDER
OF THE SANTA CLARA COUNTY SUPERIOR COURT
HONORABLE JOHN F. HERLIHY, JUDGE

HOGE, FENTON, JONES & APPEL, INC.
BY: WILLIAM J. ELFVING — BAR NO. 38334
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TO: THE HONORABLE JUSTICES OF THE COURT OF APPEAL OF THE STATE OF CALIFORNIA IN AND FOR THE SIXTH APPELLATE DISTRICT:

NEED FOR IMMEDIATE APPELLATE REVIEW

I

Petitioners Birbrower, Montalbano, Condon & Frank, P.C., a New York corporation, Kevin F. Hobbs, and Thomas A. Condon are defendants and cross-complaintants in the action entitled ESQ BUSINESS SERVICES, INC., v. BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., et al., Civil Action No. CV737595, now pending before the Santa Clara County Superior Court. Petitioners hereby petition this court for a writ of mandate directing Respondent Superior Court of the State of California in and for the County of Santa Clara to: (a) Vacate its order granting the underlying motion for summary judgment and/or adjudication brought by the Real Parties in Interest ESQ Business Services, Inc., and Iqbal Sandhu, and (b) enter a new order denying that motion.

II

In 1992 and 1993, Petitioners, New York attorneys, provided legal services in New York for Real Parties in Interest ESQ Business Services, Inc., and its president Iqbal Sandhu ("RPI") pursuant to a written contingent fee agreement. The underlying litigation involved a dispute between ESQ Business Services and Tandem Computers, Inc. over the marketing rights to certain ESQ computer software. The dispute was to be litigated before the American Arbitration Association, a private tribunal. After Petitioners had invested substantial time on the case, the underlying

dispute settled. Under the contingent fee agreement, Petitioners believe they would be entitled to as much as $10,000,000 for their legal services. However, Petitioners allege that, after the underlying case settled, RPI misrepresented to them the true value of that ESQ-Tandem settlement and coerced Petitioners to accept a substantially lesser "fixed" sum. In reliance on these misrepresentations, Petitioners executed a "fixed" fee agreement with RPI (in lieu of the contingent fee agreement) for the payment of $1,150,000. To date, RPI has failed to pay anything for the legal services rendered. Instead, RPI filed a legal malpractice lawsuit against Petitioners. Petitioners filed a counterclaim for attorneys' fees and related claims of fraud and negligent misrepresentation regarding the fixed fee agreement.

III

On November 16, 1995, RPI filed a motion for summary judgment and/or adjudication as to Petitioners' claim for attorneys' fees. The motion argued that, because Petitioners travelled to California during the ESQ-Tandem litigation on several occasions to assist RPI, Petitioners engaged in the "unauthorized" practice of law in California, thus rendering the fee agreements unenforceable. Respondent Court granted RPI's motion for summary adjudication, ruling that the fee agreements at issue were unenforceable. Respondent Court concluded that, because Petitioners were not members of the California State Bar, Petitioners' limited litigation activity in California constituted the "unauthorized" practice of law. Respondent Court's ruling disposes Petitioners' claims for fees under the two written agreements. It also effectively disposes Petitioners' negligence and fraud claims, as they were based on the "fixed" fee agreement. RPI's malpractice claims remain. Petitioners only real claim remaining against RPI is its quantum meruit claim.

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IV

Respondent court had a clear, present, and mandatory duty to apply controlling law and, more specifically, to deny RPI's motion for summary judgment and/or adjudication. Respondent Court's order granting RPI's motion for summary adjudication constituted an act in excess of its jurisdiction, an abuse of its discretion, and a violation of its duty, because: (a) Petitioners did not engage in the unauthorized practice of law in California; and (b) even if Petitioners' conduct constitutes the unauthorized practice of law, Petitioners are still entitled to fees for services rendered outside of California under the written fee agreements. Respondent Court's order fails to abide by the law as interpreted by the California Court of Appeal.

V

Respondent Court's order bars a substantial portion of Petitioner's case from being heard on the merits, which will cause severe prejudice to Petitioners when the legal malpractice claims proceed to trial. As is, the case will proceed to trial on the legal malpractice claims alone (and Petitioners' quantum meruit claim). Respondent Court's order effectively disposes Petitioners' claims of fraud and negligence. These claims allege that RPI misrepresented the true facts to persuade Petitioners to accept $1,150,000 in lieu of an amount under the contingent fee agreement. Respondent Court's ruling that both fee agreements are unenforceable renders Petitioners' negligence and fraud claims effectively moot. It will be impossible for Petitioners to demonstrate to the trier of fact that RPI coerced Petitioners into signing the "fixed" fee agreement, when, by Respondent Court's order, that very agreement is unenforceable.

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VI

There exists a need for immediate appellate review of Respondent Court's order.[1] Absent review through this Petition, all parties may suffer harm that cannot be corrected on appeal, in that they may be required to try this case twice. The close relationship between Petitioners' attorneys' fees claims and RPI's legal malpractice claims dictates that all claims be tried together. Petitioners' claims for fees under the fee agreements are inextricably related to RPI's claims of legal malpractice. RPI has asserted numerous breaches of fiduciary duty and other acts of legal malpractice. For example, RPI alleges that Petitioners forced RPI into unconscionable fee agreements. Petitioners, on the other hand, allege that RPI voluntarily entered both fee agreements, and further assert that RPI misrepresented the true value of the ESQ-Tandem settlement to persuade Petitioners to accept only $1,150,000. If the legal malpractice claims proceed without Petitioners breach of fee agreement claims, and Petitioners later successfully appeal Respondent Court's order, the entire case will, in essence, need to be retried to determine the validity of the fee agreements. Most of the same witnesses will need to be called. Experts that testified to the attorney standard of care would need to testify again to determine the propriety of the fee agreements. Experts testifying to ESQ's alleged damages would need to be

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1. RPI agree that there exists and need for immediate appellate review of the issues presented by this petition. RPI agree that if the case were to proceed to trial only on the remaining malpractice causes of action, and Petitioners later successfully challenged Respondent Court's order, all parties herein would be required to retry portions, if not all, of the case. On January 9, 1996, Petitioners and RPI jointly requested that Respondent Court vacate the January 16, 1996, trial date pending resolution of the instant Petition. (Exhibit 9 to Petitioners' Appendix ("PA") [PA 281-284].) On January 9, 1996, Respondent Court ordered the January 16, 1996, trial date be vacated. (Exhibit 10 [PA 285-286].)

re-called to evaluate the value of the ESQ-Tandem settlement, and thus the fee under the contingent fee agreement. The parties and percipient witnesses involved, including ESQ and Tandem accountants and personnel, would also need to be re-called to determine the circumstances and value of the fee agreements. Given the potential waste of time, money, and judicial resources that could be avoided by a writ of mandate, such a writ is an appropriate remedy.

VII

By this Petition, Petitioners ask this Court to speak to an important issue never before directly decided by the California Court of Appeal: May an out-of-state attorney, not a member of the California State Bar, collect money pursuant to a valid fee agreement executed out-of-state, for legal services rendered to a California client (and to what extent) when (1) the majority of legal services performed were performed in the attorney's home state, (2) the litigation services performed in California did not involve appearing before a state or federal court, but rather involved advice given to, and negotiation on behalf of, the client, and (3) the legal proceeding was before a private arbitration tribunal.

APPENDIX D — PETITION FOR REVIEW

IN THE SUPREME COURT
OF THE STATE OF CALIFORNIA

ESQ BUSINESS SERVICES, INC., a California corporation; et al.,

Plaintiffs and Respondents,

vs.

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., a New York corporation; et al.,

Defendants and Appellants.

AND RELATED CROSS-COMPLAINT.

After a Decision by the Court of Appeal
Sixth Appellate District Case No. H014880
Santa Clara County Superior Court,
Case No. CV737595

PETITION FOR REVIEW

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Appendix D

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PETITION FOR REVIEW

TO: THE CHIEF JUSTICE AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF CALIFORNIA.

ISSUES FOR REVIEW

1. DOES AN OUT OF STATE ATTORNEY'S LIMITED NON-COURTROOM LEGAL WORK PERFORMED IN CALIFORNIA CONSTITUTE THE "UNAUTHORIZED PRACTICE OF LAW," UNDER BUSINESS AND PROFESSIONS CODE SECTION 6125?

2. IS AN OUT OF STATE ATTORNEY BARRED FROM ENFORCING AN OTHERWISE VALID FEE AGREMENT WITH A CLIENT WHEN THE LEGAL SERVICES INCLUDE LIMITED WORK PERFORMED IN CALIFORNIA?

APPENDIX E — PETITIONERS' OPENING BRIEF

IN THE SUPREME COURT
OF THE STATE OF CALIFORNIA

NO. S057125

Santa County Superior Court
Action No. CV737595

Sixth Appellate District Case
No. H014880

BIRBROWER, MONTALBANO, CONDON & FRANK, P.C., a New York corporation, and KEVIN F. HOBBS,

Petitioners,

vs.

SANTA CLARA COUNTY SUPERIOR COURT,

Respondent.

ESQ BUSINESS SERVICES, INCORPORATED, et al.,

Real Parties in Interest.

PETITIONERS' OPENING BRIEF

HOGE, FENTON, JONES & APPEL, INC.
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ISSUES FOR REVIEW

PETITIONERS' ISSUES ON APPEAL

I. DOES AN OUT-OF STATE ATTORNEY'S LIMITED NON-COURTROOM LEGAL WORK PERFORMED IN CALIFORNIA CONSTITUTE THE "UNAUTHORIZED PRACTICE OF LAW" UNDER BUSINESS AND PROFESSIONS CODE SECTION 6125?

II. IS AN OUT-OF-STATE ATTORNEY BARRED FROM ENFORCING AN OTHERWISE VALID FEE AGREEMENT WITH A CLIENT WHEN THE LEGAL SERVICES INCLUDE LIMITED WORK PERFORMED IN CALIFORNIA?

ADDITIONAL ISSUES ON APPEAL

III. WHERE AN OUT-OF-STATE ATTORNEY SEEKS TO REPRESENT A CALIFORNIA CLIENT IN AN ADVERSARY PROCEEDING AGAINST ANOTHER CALIFORNIA PARTY IN A CALIFORNIA FORUM, MUST THE ATTORNEY COMPLY WITH CALIFORNIA RULES OF PROFESSIONAL CONDUCT, RULE 3-300, RELATING TO OBTAINING AN INTEREST IN THE CLIENT'S PROPERTY?

IV. WHERE AN OUT-OF-STATE ATTORNEY SEEKS TO REPRESENT A CALIFORNIA CLIENT IN AN ADVERSARY PROCEEDING AGAINST ANOTHER

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APPENDIX F — EXCERPTS FROM SOFTWARE MARKETING AND SUPPORT AGREEMENT DATED AUGUST 31, 1993

SOFTWARE MARKETING AND
SUPPORT AGREEMENT

DATED AUGUST 31, 1993

By and Between

TANDEM COMPUTERS INCORPORATED

and

ESQ BUSINESS SERVICES

SOFTWARE MARKETING AND SUPPORT AGREEMENT

THIS SOFTWARE MARKETING AND SUPPORT AGREEMENT (the "Agreement") is made and entered into this 31st day of August, 1993 by and between *Tandem Computers Incorporated*, a Delaware corporation ("Tandem") with its principal place of business at 19333 Vallco Parkway, Cupertino, California U.SA. 95014 and *ESQ Business Services Incorporated*, a California corporation ("ESQ") with its principal place of business at 5300 Stevens Creek B1, San Jose, California 95129.

RECITALS

WHEREAS, Tandem and ESQ entered into that "Software Development and Marketing Agreement" dated March 16, 1990 with respect to the development, enhancement, marketing and support of certain ESQ computer software, generally known as Programmatic Network Administrator and generally described on Exhibit A hereto (the "Original PNA Agreement");

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WHEREAS, Tandem and ESQ have certain disputes regarding their respective rights and obligations under the Original PNA Agreement and have commenced an arbitration action with respect thereto;

WHEREAS, Tandem and ESQ desire to settle and resolve their disputes under the Original PNA Agreement and cause said arbitration to be withdrawn and dismissed, and as part of that settlement to terminate the Original PNA Agreement and supersede the same by this Agreement, all on the terms and conditions set forth herein.

Now, Therefore, the parties hereto agree as follows:

1 *Definitions.*

1.1 "Derivative Work" means a work which is based upon one or more pre-existing works, such as a revision, modification, collection, compilation or any other form in which such pre-existing works may be recast, transformed or adapted, and which, in the absence of this Agreement or other authorization by the owner of the pre-existing work, would constitute a copyright infringement or other infringement of proprietary rights of the owner therein.

* * *

from that transaction shall be the lesser of (i) the portion of the revenues from the Bundled Product transaction equitably attributable to the Software included therein (which shall be determined on a pro rata basis, based on the then current "unbundled" stand-alone list price for the items sold or licensed together as the Bundled Product) and (ii) the then "unbundled" stand-alone list price for said Software.

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1.17 "Transferred Customers means Tandem Customers transferred from Tandem to ESQ pursuant to Section 3.3.

1.18 "Execution Date" means the date first set forth above (being the date both parties executed this Agreement).

1.19 "Effective Date" means April 1, 1993 (being the date of this Agreement takes retroactive effect).

2 *ORIGINAL PNA AGREEMENT.*

2.1 *Termination.* Subject to Section 4.1.1, the parties hereby novate, terminate and supersede the Original PNA Agreement, with retroactive effect as of the Effective Date. This Agreement shall be effective as of the Effective Date; from and after the Effective Date, the license agreements under which Existing Tandem PNA licensees are licensed to use the Software shall be treated and deemed as if granted under and pursuant to this Agreement.

2.2 *Dismissal of Pending Arbitration.* All arbitration proceedings between Tandem and ESQ pending or contemplated as of the Execution Date and/or relating to the Original PNA Agreement are and shall be terminated and dismissed with prejudice (but without prejudice to ESQ's right to bring an arbitration proceeding relating to royalties payable hereunder or under the Original PNA Agreement if such royalties are not paid in accordance therewith. Each party shall, within five business days after the Execution Date, execute and file as required any and all papers and instruments necessary to implement and to give full effect to this Section 2.2. Each party acknowledges and agrees that this provision is a material part of the consideration for the other party to execute this Agreement and that the other

party would suffer material and irreparable injury (for which money damages would be insufficient) if this provision were breached. Accordingly, each party acknowledges and agrees that the other party shall be entitled to injunctive and other equitable relief to enforce this Section 2.2.

2.3 *Waiver and General Release.* Subject to Section 4.1.1:

2.3.1 Each party hereby acknowledges and agrees, subject to the provisions of Sections 4.1 and 4.3 of this Agreement, that the other party has either fully performed all of its agreements and obligations under the Original PNA Agreement and is not in breach or default thereunder and that to the extent any such breach or default exists or may exist, the same is hereby waived.

2.3.2 Each party intends that Section 2.3 be a full and general release, subject to the provisions of Sections 4.1 and 4.3 of this Agreement, of any and all losses, claims, demands, liabilities, actions, causes of action (including all rights to arbitration), counterclaims and damages, whether at law, equity, or in administrative or arbitration proceedings, whether at common law (regardless of theory) or pursuant to any statute, rule, ordinance or regulation, whether vested or contingent, whether known or unknown, whether liquidated or unliquidated, whether matured or unmatured, whether disputed or undisputed (collectively, "Claims") which such party ever had, now has or which may have or with respect to, resulting from, relating to or under the Original PNA Agreement.

2.3.3 Each party expressly understands and acknowledges that it is possible that unknown Claims may exist, or that known Claims may be understated, and explicitly took

that into account in determining to give this release. Consequently, each party expressly waives, and waives all rights under, California Civil Code section 1542, which provides:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

s/ [illegible] s/ [illegible] _____ (Initials)

3 *LICENSE GRANTS.*

3.1 *By ESQ.* ESQ shall deliver copies (in object code form) of the Software and their updates to Tandem, in order to implement the licenses granted by this Section, from time to time as requested by the Tandem Relationship Manager. ESQ grants Tandem the following licenses:

* * *

APPENDIX G — CALIFORNIA LEGISLATURE ASSEMBLY BILL NO. 2086, AMENDED APRIL 22, 1998

AMENDED IN ASSEMBLY APRIL 22, 1998

CALIFORNIA LEGISLATURE —
1997-98 REGULAR SESSION

ASSEMBLY BILL **No. 2086**

Introduced by Assembly Member Keeley

February 18, 1998

An act to ~~add Section 1284.5~~ to *amend Section 1282.4 of* the Code of Civil Procedure, relating to arbitration.

LEGISLATIVE COUNSEL'S DIGEST

AB 2086, as amended, Keeley. Arbitration: ~~awards~~ *attorneys.*

Existing law requires any person rendering legal services in this state to be admitted to the State Bar of California. Existing law provides that a party to an arbitration has the right to be represented by an attorney.

This bill would permit persons admitted to the bar of any state to represent a party in an arbitration proceeding in this state, or to render legal services in this state in connection with an arbitration proceeding in another state.

~~Existing law authorizes an arbitrator or a court to correct an award made by an arbitrator upon specified grounds and according to specified procedures.~~

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~~This bill would authorize an arbitrator to modify, an award upon written request of a party, if the award, on its face, evidences a manifest disregard of the law and results in a substantial injustice; the modification is made prior to confirmation or vacation of the award by a court; and notice of the modification is given to the parties and any court that has been petitioned to confirm, correct, or vacate the award prior to the hearing by the court. Any additional costs, fees, or expenses incurred as part of adjudicating or performing the modification of an award would be payable by the party requesting the modification.~~

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

~~SECTION 1. Section 1284.5 is added to the Code of~~

SECTION 1. Section 1282.4 of the Code of Civil Procedure is amended to read:

1282.4 (*a*) A party to the arbitration has the right to be represented by an attorney at any proceeding or hearing in arbitration under this title. A waiver of this right may be revoked; but if a party revokes such waiver, the other party is entitled to a reasonable continuance for the purpose of procuring an attorney.

(*b*) *Notwithstanding any other provisions of law, including Section 6125 of the Business and Professions Code, an attorney admitted to the bar of any state may represent the parties in the course of, or in connection with, an arbitration proceeding in this state, or in connection with rendering legal services in this state in connection with an arbitration proceeding in another state.*

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~~Civil Procedure, to read:~~

~~1284.5 (a) Notwithstanding Section 1284 or any other provision of law, an arbitrator may modify an award upon written request of a party, if all the following conditions are met:~~

~~(1) The award, on its face, evidences a manifest disregard of the law and results in a substantial injustice.~~

~~(2) The modification is made prior to confirmation or vacation of the award by a court.~~

~~(3) Notice of the modification is given to the parties and any court that has been petitioned to confirm, correct, or vacate the award prior to the hearing by the court.~~

~~(b) Any additional costs, fees, or expenses incurred as part of adjudicating or performing the modification of an award and shall be paid by the party requesting the modification.~~